

PACIFIC WESTERN

PACIFIC WESTERN AIRLINES TWENTY-FIRST ANNUAL REPORT 1967

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B. C. SAMIS

Chairman of the Board

President, Samis & Co. Ltd.,
Investment Dealers,
Vancouver, Canada

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Vice-Chairman of the Board

Chairman, Associated Helicopters Ltd.,
Edmonton, Canada

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Director

Chairman, Pemberton Securities Ltd.,
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C. W. BRAZIER, Q.C.

Director

Partner, Davis, Hossie, Campbell,
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President, Hagar Investments Ltd.,
Victoria, Canada

R. H. LAIDMAN

Director

President, Pacific Western
Airlines Ltd.,
Vancouver, Canada

K. J. SPRINGER

Director

Senior Mining Executive,
Toronto and Vancouver, Canada

OFFICERS

R. H. LAIDMAN

President

W. R. HARRIS

Vice-President and General Manager

J. B. McGUIRE

Vice-President Sales and Traffic

J. C. S. MILES

Vice-President Operations

A. J. MOUL

Vice-President Contract and Charter

D. N. WATSON

Vice-President Management and
Technical Services

D. F. GRANGER

Secretary-Treasurer



PACIFIC WESTERN

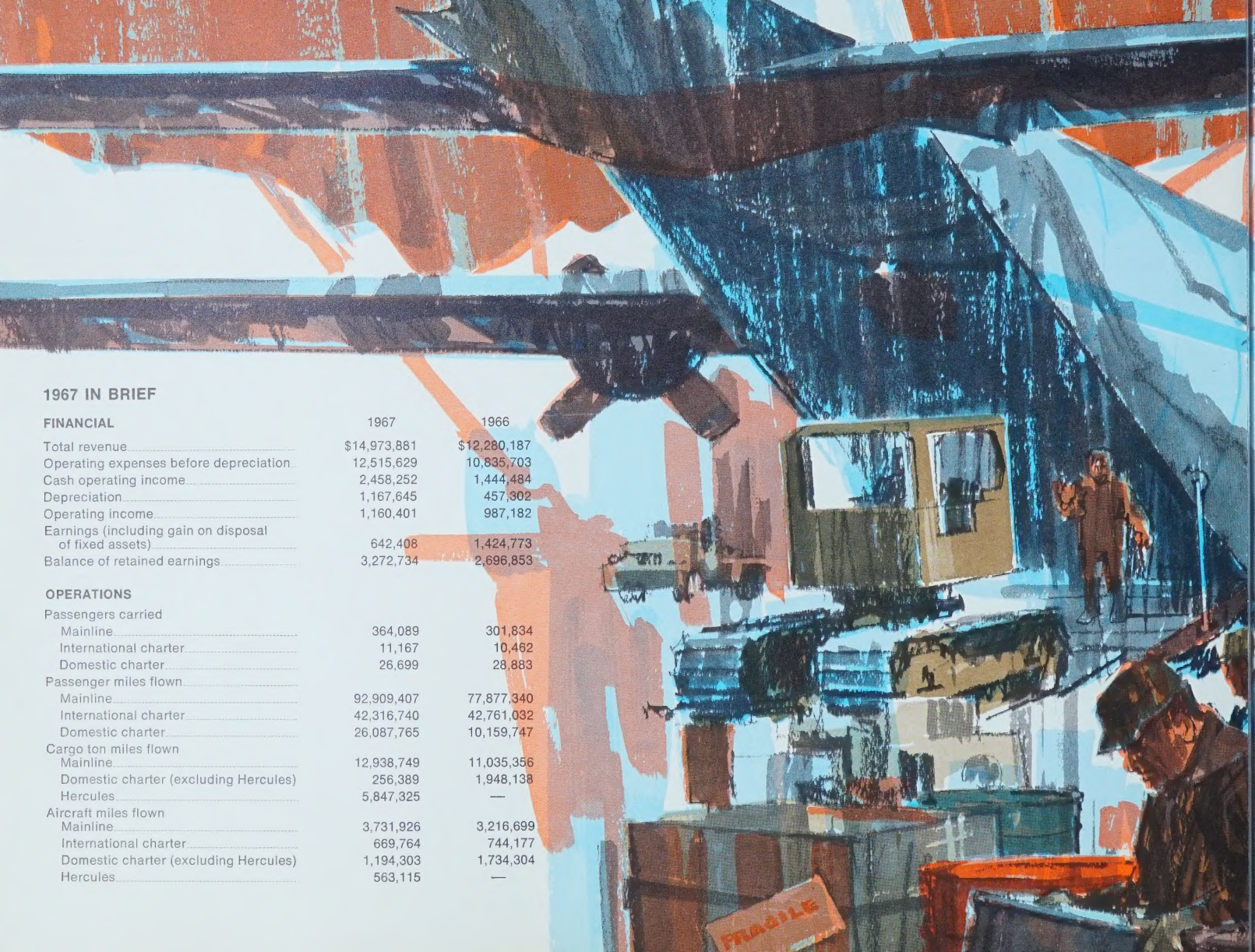
1967 IN BRIEF

FINANCIAL

	1967	1966
Total revenue.....	\$14,973,881	\$12,280,187
Operating expenses before depreciation.....	12,515,629	10,835,703
Cash operating income.....	2,458,252	1,444,484
Depreciation.....	1,167,645	457,302
Operating income.....	1,160,401	987,182
Earnings (including gain on disposal of fixed assets).....	642,408	1,424,773
Balance of retained earnings.....	3,272,734	2,696,853

OPERATIONS

Passengers carried.....		
Mainline.....	364,089	301,834
International charter.....	11,167	10,462
Domestic charter.....	26,699	28,883
Passenger miles flown.....		
Mainline.....	92,909,407	77,877,340
International charter.....	42,316,740	42,761,032
Domestic charter.....	26,087,765	10,159,747
Cargo ton miles flown.....		
Mainline.....	12,938,749	11,035,356
Domestic charter (excluding Hercules).....	256,389	1,948,138
Hercules.....	5,847,325	—
Aircraft miles flown.....		
Mainline.....	3,731,926	3,216,699
International charter.....	669,764	744,177
Domestic charter (excluding Hercules).....	1,194,303	1,734,304
Hercules.....	563,115	—





— DOMESTIC SCHEDULED ROUTES
— INTERNATIONAL CHARTER OPERATIONS

Aklavik Inuvik Cambridge Bay
Coppermine Port Radium
Norman Wells
Wrigley Yellowknife
Ft. Simpson
Hay River Rainbow Lake
Ft. Resolution
Ft. Smith
Uranium City
Ft. Chipewyan
Ft. McMurray
Stewart Alice Arm
Hudson's Hope
Pease River
Dawson Creek
Prince Rupert
Port Hardy Powell River
Campbell River Comox
VANCOUVER ISLAND
VANCOUVER
Victoria
Kamloops
EDMONTON
SASKATOON
Regina
WINNIPEG
TORONTO
Ottawa
Quebec
MONTREAL

PACIFIC

CARIBBEAN

EUROPE

EUROPE

EUROPE



TO THE SHAREHOLDERS:

We take pleasure in presenting our 21st Annual Report.

Pacific Western made a giant step forward technically during 1967 when six turbine-powered aircraft of three different types, with an aggregate value in excess of \$17,000,000, were successfully introduced into service.

FINANCIAL

Net earnings for the year reflected the additional costs involved in the transition from piston to jet aircraft: depreciation \$1,168,000 (\$457,000 in 1966), interest expense \$778,000 (\$126,000 in 1966), and amortization of introductory costs \$130,000. Cash gain of \$1,799,000 as compared with \$1,364,000 in 1966 showed an increase of 32%, however our net earnings before gain on disposal of fixed assets and income taxes amounted to \$463,000 compared with \$884,000 in the previous year.

Purchases of aircraft and other fixed assets in 1967 amounted to \$6,949,000 making a total of almost \$13,000,000 for the two years 1966-1967. In addition a rental deposit on a leased aircraft of \$967,000 was made during the year. These monies were arranged through long term borrowings of \$4,552,000 and the balance came from company funds. Part of the long term financing consisted of a new issue of convertible sinking fund debentures which were sold in June of 1967 producing \$3,308,000 net to the company.

During 1967 holders of \$706,000 par value of the Series 'A' convertible debentures exchanged their bonds for 123,550 common shares of the company reducing this issue from \$1,250,000 to \$504,000 as of December 31, 1967.

Provision was made in 1966 for the redemption of \$100,000 par value first and second preferred shares. These shares were purchased and cancelled in June of 1967.

Income taxes will not be payable in the year 1967 as substantial capital cost allowance and deferred expenses, relating to recent aircraft acquisitions, may be claimed for income tax purposes. In the opinion of your management and directors, income taxes will not be payable for a number of years due to the re-equipment program still being undertaken.

EQUIPMENT

The two Boeing 737 jet aircraft ordered in 1966 are still on

schedule for delivery in late 1968 and early 1969. The extensive tests and certification program for the 737, involving six aircraft, has been successfully concluded by the Boeing Company and results have met or exceeded all engineering forecasts. Boeing 737 aircraft entered commercial service in February 1968 in Europe and in the United States. In the same month your company entered into an agreement to purchase a third Boeing 737 to be delivered in 1971. The total commitment for purchase of 737 aircraft is now \$14,230,000 on which deposits of \$666,000 had been made up to December 31, 1967.

New turbine powered equipment deliveries are making possible disposal of certain piston engined aircraft. During 1967, four multi-engined aircraft were sold; one DC-7C, two C-46, and one DC-3. One DC-3 and the last remaining C-46 were sold in January, 1968.

In early 1967 facilities at three small aircraft charter bases in British Columbia were disposed of and five Beaver aircraft were sold as part of your company's policy of placing emphasis on large aircraft scheduled and charter service.

Pacific Western Airlines fleet of Group A aircraft (DC-3 and larger) consists of the following:

1 Boeing 707-138B	2 Douglas DC-6
1 Lockheed L382B Hercules	2 Douglas DC-4
4 Convair 640	1 Douglas DC-3
1 Douglas DC-7C	2 Boeing 737-275—on order
2 Douglas DC-6B	1 Boeing 737-275C—on order

OPERATIONS

The four Convair 640 jet-prop aircraft and the Lockheed L-382B Hercules ordered in 1966 were put into service in March, April and May of 1967—and a Boeing 707-138B fan-jet aircraft was added to the fleet in November, 1967.

Passengers carried on mainline services increased by 21% in 1967; cargo carried increased by 15% and passenger miles flown and ton miles flown registered gains indicating the increased capacity made available.

Scheduled services in British Columbia showed a 19% increase in the number of passengers carried reflecting, in part, the effect of the 'jet-factor' or, in other words, the public appeal of modern jet-powered, pressurized and faster aircraft. The generally good economic conditions in British Columbia also had their effect, as they always do on such a basic service as air transportation.

Northern Alberta and Mackenzie River routes and services showed continuing traffic gains in all areas in 1967. Substantially increased exploration activity in the north, particularly in the Coppermine area and on the Arctic Islands, is not only producing a demand for Hercules and other heavy freight operations but is also having a salutary effect on our scheduled services in the area.

The move of Territorial Government staff and services from Ottawa to Yellowknife was completed in 1967 and has increased not only traffic to and from Yellowknife but throughout the north as well.

Activity at Rainbow Lake is continuing apace and traffic to that point showed substantial gains.

The continuing emphasis on Northern development, of which the move to Yellowknife is indicative, provides good reason to expect continued healthy traffic growth in the area.

The Chieftain AirBus service between Calgary and Edmonton continued to show substantial increases in 1967 and carried 134,500 passengers during the year, compared with the 97,000 passengers carried during 1966. By May 21, 1968, which will be the fifth anniversary of the inception of the Chieftain AirBus, more than 430,000 passengers will have been flown between the two centres by Pacific Western.

Contract and charter operations during 1967 were highlighted by the introduction of the Hercules with its specialized heavy freight capabilities; the operation of 36 passenger charters to Expo '67 from western Canada; the successful completion of the 1966/1967 Inclusive Tour charter operations to Grand Cayman Island and commencement of the 1967/68 Grand Cayman program using the Boeing 707; a successful International passenger group charter program with the two DC-7C aircraft.

Early in the year, responsibility for the passenger charter program was transferred from the charter and contract section to the sales and traffic department as being more compatible with the normal activities of the latter group, thereby allowing the charter and contract section to concentrate on and develop the special field of charter freight operations.

Hercules operations were commenced in late March with an aircraft leased from Lockheed pending delivery of the company owned aircraft at the end of April. The Hercules was used in the Arctic on the spring airlift from a base at Yellowknife and for the Department of Indian Affairs and Northern Development from Churchill, Manitoba.

Before the sea and lake ice runways had to be abandoned, 4,000 tons of freight had been moved and 465 hours were flown on the aircraft. Freight included bulldozers, trucks, graders, prefabricated buildings, drummed and bulk fuel, lumber, ore concentrates and general cargo.

On July 4th, the aircraft was flown to Europe for a series of charters for the Iran Oil Company carrying oil field equipment between Europe and the Middle East following which it was operated for Trans-Mediterranean Airways for a four month period. Returning to Canada on December 1st, a contract was then fulfilled from Churchill before returning to Europe for another series of charters extending until early January.

During 1967, the Hercules flew in 26 different countries through temperatures of minus 45° to 134° with no major maintenance problems. Cargoes have ranged from cigarettes to cattle, Persian carpets, gold and silver bullion, newly minted currency, computers, and a 20 ton load of Italian fruit cake from Milan to London. A steel shaft for a ship was airlifted from Athens to London which, at 41,000 pounds, was the largest single piece of airfreight ever landed in the United Kingdom. A successful year is anticipated in 1968 with the aircraft heavily committed in the Arctic until mid-May and throughout the year on the Pan Arctic Project. It is planned to again operate in Europe at other periods because of the constant requirement throughout Europe for this type of specialized heavy airfreighter.

More than 11,000 passengers were carried on international charter flights during 1967. It has been evident for some time, however, that public preference in group passenger charter is for jet equipment. In view of this the company decided to acquire a long range jet aircraft, which has resulted in a substantial increase in 1968 bookings.

PERSONNEL

The smooth transition from piston powered to turbine powered aircraft operations during the year was accomplished with dispatch and efficiency by our staff. Its success is indeed to their credit. While continuing to operate all our present services, many technical personnel had to be released for ground and flight training.

Five flight crews and 23 maintenance personnel were given an extensive course at the Lockheed facilities in Marietta, Georgia early in the year and subsequently the flight crews completed the flight training on our own aircraft. Also, at the beginning

of 1967, 15 crews and 25 maintenance technicians were being trained by Convair instructors at our own facilities.

Later in the year, with the acquisition of the Boeing 707 jet, our overseas flight crews and maintenance personnel were split into two groups and simultaneous technical courses were conducted at the Boeing Company in Seattle and at the Qantas facilities in Sydney, Australia.

Meanwhile training courses related to ground handling and loading of the new aircraft were undertaken; spare parts inventories were ordered and stored; involved financing arrangements were successfully concluded, and introductory sales and advertising programs planned and executed.

The agreement relating to pilots, which was under conciliation at the beginning of the year, was amicably settled. Negotiations and renewal of contracts with our maintenance staff, represented by the International Association of Machinists, and with the traffic staff were successfully concluded before the expiry dates of the existing contracts. The agreement affecting flight attendants has expired and negotiations are currently under way.

The accomplishments of 1967 were many, and your Board of Directors wishes to express its appreciation of the outstanding efforts of our management and staff.

Mr. Karl J. Springer, who joined with Russ Baker in the founding of what is now Pacific Western Airlines in 1946, has decided that the pressure of other business will not permit him to stand for re-election to the Board of Directors this year. Mr. Springer served as President until 1953 when he became Chairman of the Board and Mr. Baker was elected President. After the death of Mr. Baker in 1958, Mr. Springer again assumed the Presidency until 1961 when he felt that his extensive mining interests were limiting the time and attention he should devote to Pacific Western affairs, and consequently disposed of the majority of his interest in the company. His financial support and guidance in the formative years of the company played a large part in its early growth and expansion. We are indebted to Mr. Springer for his many years of interest in the welfare of Pacific Western, and wish to record here our appreciation of his efforts.

Each year it has been our misfortune to report no progress on the implementation of the Regional Aviation Policy. This year is no exception. While regional air carriers are expected to provide service equal to that of Air Canada and Canadian Pacific Air Lines, the lack of adequate route segments creates serious

problems. Understandably, this also poses severe financial restrictions, particularly in arranging term financing in Canada.

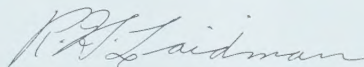
Your company is continuing to press for action, and is continuing to file applications for routes, which in our opinion fall within the terms of the announced policy, with the Air Transport Committee of the Canadian Transport Commission.

The transition from piston-engined to jet aircraft, and the associated costs, will continue through 1968. However, the full year's utilization of our Boeing 707 and Lockheed Hercules will materially increase revenues, and indications are that a continuing steady growth on our scheduled services will be enjoyed in 1968.

Respectfully submitted,



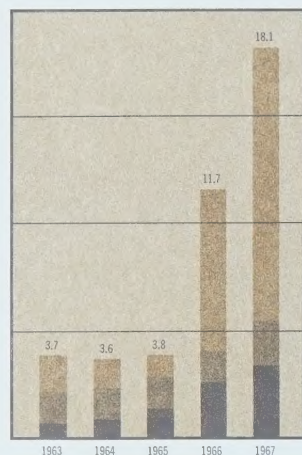
B. C. SAMIS
Chairman of the Board



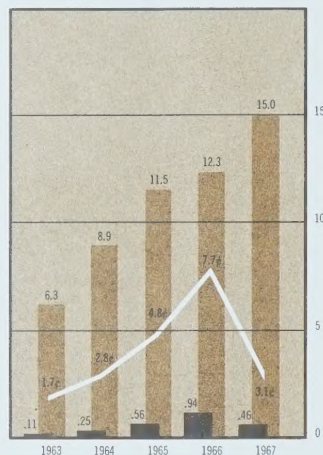
R. H. LAIDMAN
President

April 2, 1968

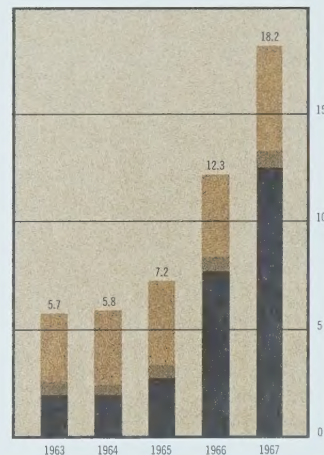
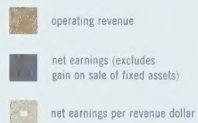
FINANCIAL PROGRESS 1963/1967 (As at December 31 of each year)



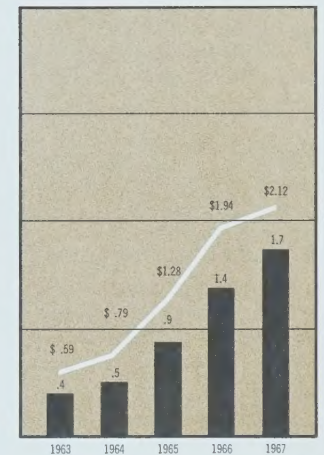
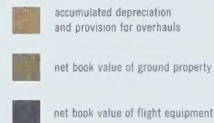
INVESTED CAPITAL
millions of dollars



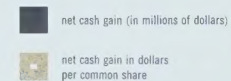
OPERATING REVENUES AND NET EARNINGS
millions of dollars



OPERATING PROPERTY AND EQUIPMENT
millions of dollars



NET CASH GAIN



PACIFIC WESTERN AIRLINES LTD.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1967 (with comparative figures for 1966)

	1967	1966
Operating revenues:		
Passenger.....	\$ 8,420,289	\$ 6,816,922
Cargo.....	1,570,501	1,387,502
Mail.....	653,390	645,956
Charter.....	4,289,442	3,349,062
Other revenue, net.....	40,259	80,745
	<u>14,973,881</u>	<u>12,280,187</u>
Operating expenses:		
Flying operations.....	4,321,195	4,275,839
Maintenance.....	3,055,650	2,699,537
Aircraft and traffic servicing.....	3,502,065	2,620,276
Selling and advertising.....	650,744	443,742
General and administrative.....	985,975	796,309
	<u>12,515,629</u>	<u>10,835,703</u>
Operating income before depreciation and amortization..	2,458,252	1,444,484
Depreciation (Note 2).....	1,167,645	457,302
Amortization of introductory costs of new aircraft (Note 3).....	130,206	—
	<u>1,297,851</u>	<u>457,302</u>
Operating income.....	1,160,401	987,182
Other charges, net:		
Interest on borrowings.....	777,716	125,684
Amortization of financing expenses....	37,964	22,965
	<u>815,680</u>	<u>148,649</u>
Less interest income.....	118,626	45,588
	<u>697,054</u>	<u>103,061</u>
Earnings before income taxes.....	463,347	884,121
Income taxes refundable.....	—	(57,000)
Net earnings for the year.....	463,347	941,121
Gain on sale of fixed assets.....	179,061	483,652
Net earnings for the year and gain on sale of fixed assets.....	<u>\$ 642,408</u>	<u>\$ 1,424,773</u>

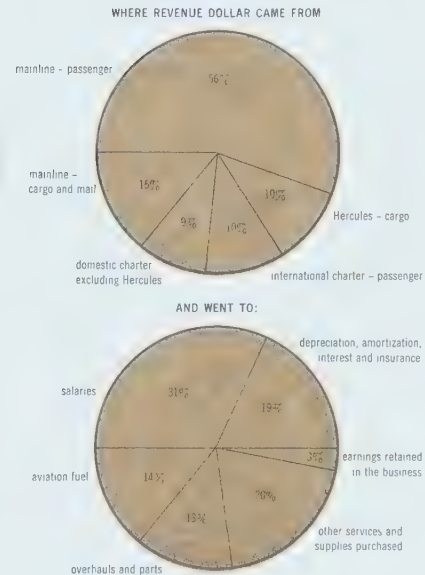
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1967 (with comparative figures for 1966)

	1967	1966
Balance at beginning of year.....	\$ 2,696,853	\$ 1,341,617
Net earnings for the year and gain on sale of fixed assets.....	642,408	1,424,773
	<u>3,339,261</u>	<u>2,766,390</u>
Deduct dividends paid:		
First preferred shares.....	57,740	60,000
Second preferred shares.....	8,281	9,537
	<u>66,021</u>	<u>69,537</u>
Balance at end of year.....	<u>\$ 3,272,734</u>	<u>\$ 2,696,853</u>

See accompanying notes to consolidated financial statements.

1967



PACIFIC WESTERN AIRLINES LTD.
and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

December 31, 1967 (with comparative figures for 1966)

ASSETS

	1967	1966
Current assets:		
Cash and bank deposit receipts	\$ 1,048,591	\$ 1,595,905
Accounts receivable.....	1,368,275	960,246
Income taxes refundable.	—	188,235
Current portion of Northward debenture.....	95,000	65,000
Inventory of parts, materials and supplies, at the lower of cost or net realizable value.....	661,779	520,171
Prepaid insurance and other expenses	305,611	94,352
Total current assets.....	3,479,256	3,423,909
Other assets:		
Investment in Northward Aviation Ltd.:		
Shares, at cost	100,000	100,000
7% debenture, less amount due within one year	165,000	195,000
	265,000	295,000
Rental deposit on leased Boeing 707 aircraft and accrued interest (Note 8).....	980,635	—
Sundry, at cost	38,370	32,000
	1,284,005	327,000
Property and equipment, at cost, less depreciation (Note 2):		
Flight equipment	15,801,666	10,357,069
Buildings on leased land and ground facilities.....	1,678,102	1,347,541
	17,479,768	11,704,610
Less accumulated depreciation and provision for overhauls.....	4,726,855	3,962,075
	12,752,913	7,742,535
Deposits on purchase of aircraft (Note 8).....	665,597	578,130
	13,418,510	8,320,665
Deferred charges, less amortization:		
Introductory costs of new aircraft (Note 3).....	802,854	95,781
Debt financing expenses.....	268,890	73,314
	1,071,744	169,095
Excess of cost of investments in subsidiary companies over their net book value at time of acquisition and goodwill.....	1,173,807	1,173,807
	\$20,427,322	\$13,414,476

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	1966	
Accounts payable and accrued expenses	\$ 1,642,676	
Payments on long-term debt due within one year (Note 4)	702,915	
Provision for redemption of first and second preferred shares	100,000	
Total current liabilities	2,445,591	
Overhaul provision on aircraft under long-term lease	—	
Long-term debt, less amount included in current liabilities (Note 4)	6,816,589	
Shareholders' equity (Notes 4 and 5):		
Share capital	1,455,443	
Retained earnings, per accompanying statement	2,696,853	
Total shareholders' equity	4,152,296	
Commitments (Note 8)		

Approved on behalf of the Board:

B. C. SAMIS, Director

R. H. LAIDMAN, Director

\$13,414,476

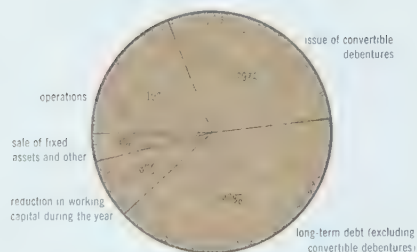
PACIFIC WESTERN AIRLINES LTD.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

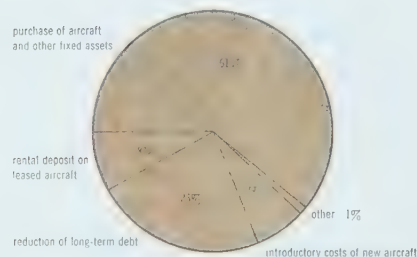
Year ended December 31, 1967 (with comparative figures for 1966)

1967

WHERE FUNDS CAME FROM



AND WENT TO:



Funds provided by:

Operations:

	1967	1966
Net earnings for the year and gain on sale of fixed assets.....	\$ 642,408	\$ 1,424,773
Add charges (net) not requiring cash expenditure:		
Depreciation, increase in provision for overhauls and sundry	1,552,165	642,223
Amortization of deferred charges.....	168,170	22,965
Gain on sale of fixed assets.....	(179,061)	(483,652)
Funds provided by operations.....	2,183,682	1,606,309
Sale of fixed assets.....	466,461	635,553
Issue of Sinking Fund Debentures, less costs of issue	3,307,854	1,163,744
Current portion of debentures of Northward Aviation Ltd.	30,000	—
Bank loan.....	—	1,500,000
Total funds provided	5,987,997	4,905,606

Funds applied to:

Purchase of aircraft and other fixed assets.....	6,949,229	6,015,777
Less amount financed through long-term debt	4,552,700	4,782,024
Rental deposit on leased aircraft	2,396,529	1,233,753
Reduction of long-term debt	966,937	—
Introductory costs of new aircraft	2,641,488	1,295,415
Dividends on preferred shares.....	844,237	95,781
Sundry.....	66,527	69,537
Provision for redemption of preferred shares.....	6,370	32,000
Total funds applied.....	—	100,000
Increase (decrease) in working capital.....	6,922,088	2,826,486
Working capital (deficiency) at beginning of year.....	(934,091)	2,079,120
Working capital at end of year.....	978,318	(1,100,802)
	\$ 44,227	\$ 978,318

See accompanying notes to consolidated financial statements.

PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1967

1. Conversion of foreign currencies:

Current assets and current liabilities in U.S. funds have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1967. Long-term debt payable in U.S. funds, other than the amount due within one year, has been converted at rates prevailing at the time the debt was incurred.

2. Property and equipment:

Depreciation on property and equipment, except for the renewable portion of certain assets, has been calculated on the straight-line method on cost at varying rates dependent upon the estimated life of the assets. The rates applicable to the Lockheed Hercules and Convair 640 aircraft are based on an estimated useful life of ten years with a residual value of 15% of cost. The renewable portion of certain assets, mainly aircraft engines, is depreciated through an overhaul provision based on the number of hours operated multiplied by an hourly overhaul cost.

3. Introductory costs of new aircraft:

The pre-operating expenses of the Convair 640, Lockheed Hercules and Boeing 707 aircraft, together with the operating costs of the Boeing 707 to December 31, 1967 less revenue earned by that aircraft, have been deferred. These deferred costs will be written off over a period of three years from the time the aircraft were considered operational.

4. Long-term debt:

Particulars of long-term debt at December 31, 1967:

	Total	Due within one year	Non- current
7% Convertible Subordinated Sinking Fund Debentures Series A due April 1, 1976. The sinking fund requirements for 1968 through 1972 and part of 1973 have been met by the conversion of debentures into common shares. The balance of the sinking fund requirements are \$79,000 in 1973, \$150,000 in 1974 and 1975 and the balance in 1976	\$ 504,000	—	504,000
7% Convertible Sinking Fund Debenture Series AA due June 1, 1982; with an annual sinking fund requirement of \$140,000 in 1969 through 1971, \$280,000 from 1972 through 1981 and the balance in 1982	3,500,000	—	3,500,000

Agreements payable for Convair 640 aircraft and spare parts, secured by 8% debentures of \$4,488,712 U.S. and \$1,065,600 U.S. Payable in quarterly instalments to March 31, 1972 on which date a final payment of \$2,263,038 U.S. will be due ...

5,570,348 662,688 4,907,660

Agreements payable for Lockheed Hercules aircraft and spare parts, secured by a 10% and 6% debenture for \$1,950,000 U.S. and \$325,000 U.S., respectively. Payable in monthly instalments to May 1974

2,318,746 276,233 2,042,513

Bank loan, due September 1, 1969, secured by a \$500,000 7% demand debenture. The bank has also, as a general security, an assignment of receivables

500,000 — 500,000

Industrial Development Bank loan, secured by a First Mortgage Bond

102,000 102,000 —

Other agreements payable in instalments from January 1968 to November 1969, secured by charges on certain specific assets

171,368 113,712 57,656
\$12,666,462 \$1,154,633 \$1,511,829

Among other provisions, the trust indentures of the Series A and Series AA debentures and the debentures securing the agreements payable for Convair 640 and Lockheed Hercules aircraft contain restrictions on the payment of dividends on the common shares of the company. Under the most onerous of these restrictions the retained earnings at December 31, 1967 which were available for dividends on the common shares of the company were approximately \$300,000. The working capital, after the payment of dividends on common shares, has to be at least \$750,000.

5. Share capital

Particulars of the authorized and issued share capital as of December 31, 1967 are:

6% cumulative redeemable sinking fund first preferred shares of \$10 par value per share. Authorized 100,000 shares; issued 92,500 shares, 7,500 shares redeemed during the year

\$ 925,000

6% cumulative redeemable sinking fund second preferred shares of \$10 par value per share. Authorized 15,895 shares; issued 13,395 shares, 2,500 shares redeemed during the year \$ 133,950
1,058,950

Common shares of no par value. Authorized 1,500,000 shares; issued 819,552 shares, including 123,550 shares issued during the year on conversion of Series A debentures 1,102,493
\$2,161,443

The preferred shares, first and second issues, are redeemable at \$10.50 per share and \$10 per share respectively. The terms of issue, as amended, provide for an annual sinking fund provision of 30% of the annual consolidated net earnings (maximum \$100,000 save as the directors may determine) so long as the consolidated net current assets would not be reduced to less than \$150,000.

The terms of issue of the first preferred shares restrict the payment of dividends on the second preferred shares or common shares when the consolidated working capital is less than \$150,000. There is a similar restriction under the terms of issue of the second preferred shares relating to the payment of dividends on the common shares.

Dividends on the first and second preferred shares have been paid to December 1, 1967. If the company failed to pay in the aggregate four quarterly dividends on the first preferred shares, then so long as any dividends remain in arrear, the holders of the first and second preferred shares would be exclusively entitled to vote at all general meetings of the company.

The holders of the 7% Convertible Subordinated Sinking Fund Debentures Series A are entitled to convert each \$1,000 debenture into 175 common shares if converted on or before April 1, 1968 and into 160 common shares if converted after April 1, 1968 and on or before April 1, 1971 when the conversion privilege expires. During 1967, \$706,000 debentures were converted into 123,550 common shares. The holders of the 7% Convertible Sinking Fund Debentures Series AA are entitled to convert each \$1,000 debenture into 70 common shares if converted on or before June 1, 1972 and into 50 common shares if converted after June 1, 1972 and on or before June 1, 1977 when the conversion privilege expires. At December 31, 1967, the number of common shares reserved for the conversion of the Series A and Series AA debentures was 333,200 shares which was the maximum number required for such conversion.

6. Income taxes:

Depreciation will be claimed for income tax purposes in 1967 in excess of the amount recorded in the accounts and in addition deferred expenses will be claimed as a deduction for income tax purposes in the year they were incurred. The effect of these adjustments to taxable income is that the income taxes otherwise payable for the year of \$237,000 on earnings and \$88,000 on the gain on sale of fixed assets have been eliminated. In addition, because of the substantial amount of capital cost allowance that can be claimed for tax purposes in the year, an income tax loss of approximately \$2,200,000 will be carried forward at December 31, 1967.

At December 31, 1967, the cumulative amount of income taxes payable that has been deferred by claiming depreciation for income tax purposes in excess of the amount recorded in the accounts and from claiming deferred expenses as a deduction from taxable income amounted to approximately \$1,960,000.

7. General and administrative expense:

Remuneration of directors amounted to \$3,500 in 1967 and that of senior officers of the company and certain technical personnel, as defined by the B.C. Securities Act, amounted to \$207,210.

8. Commitments:

At December 31, 1967 commitments for the purchase of two Boeing 737 aircraft and spare parts and other fixed assets amounted to approximately \$9,900,000, on which deposits of \$665,597 have been made. In February 1968 the company entered into a further commitment, which can be cancelled at any time on or before May 11, 1968, for the purchase of another Boeing 737 aircraft for approximately \$4,330,000.

The company has entered into long-term leases of a Boeing 707 and a DC6B aircraft under which annual rentals are payable of approximately \$800,000 in 1968 through 1971; \$720,000 in 1972 through 1976 and \$600,000 in 1977. The company has made a rental deposit of \$966,937 on the Boeing 707 which earns interest at 8½% per annum. This deposit together with accumulated interest will be offset against the rental obligations for 1976 and 1977. The company has options to purchase these aircraft when the leases expire.

The company has also entered into other long-term leases with total annual rentals of approximately \$60,000.

The company has guaranteed the bank loan of Northward Aviation Ltd. up to a maximum amount of \$17,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Pacific Western Airlines Ltd. and its subsidiary companies as of December 31, 1967 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
February 26, 1968.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

PACIFIC WESTERN AIRLINES LTD. and Subsidiary Companies

10 YEAR SUMMARY

FINANCIAL STATISTICS

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
Mainline revenue	\$10,307,771	\$ 8,583,104	\$ 7,133,137	\$5,562,596	\$4,284,926	\$3,977,175	\$3,985,243	\$4,270,145	\$2,825,103	\$1,136,510
Contract and charter revenue										
Multi-engine aircraft (excluding International and Hercules)	1,097,110	1,020,886	826,561	662,202	663,444	417,984	371,685	281,672	327,741	231,130
International—passenger	1,547,514	1,813,366	1,869,369	1,338,484	—	—	—	—	—	—
Hercules—cargo	1,425,276	—	—	—	—	—	—	—	—	—
Single engine aircraft	555,951	782,086	1,675,289	1,273,671	1,283,665	1,200,999	1,396,858	1,267,814	1,396,504	1,941,278
Other revenue	40,259	80,745	32,221	28,260	58,473	17,647	91,863	49,436	89,844	105,451
	<u>14,973,881</u>	<u>12,280,187</u>	<u>11,536,577</u>	<u>8,870,213</u>	<u>6,290,508</u>	<u>5,613,805</u>	<u>5,845,649</u>	<u>5,869,067</u>	<u>4,639,192</u>	<u>3,414,369</u>
DEW line revenue	—	—	—	—	—	—	666,923	2,717,817	3,224,699	3,713,744
Helicopter service revenue	—	—	—	—	—	—	—	—	—	337,611
Government subsidy	—	—	—	—	—	284,251	283,573	50,000	—	—
Total revenue	<u>\$14,973,881</u>	<u>\$12,280,187</u>	<u>\$11,536,577</u>	<u>\$8,870,213</u>	<u>\$6,290,508</u>	<u>\$5,898,056</u>	<u>\$6,796,145</u>	<u>\$8,636,884</u>	<u>\$7,863,891</u>	<u>\$7,465,724</u>
Funds generated from operations	2,183,682	1,606,309	1,040,760	691,207	456,868	218,368	747,026	662,312	1,049,123	1,277,830
Depreciation and amortization	1,335,815	480,267	395,208	367,174	372,533	586,862	561,642	678,098	645,215	646,120
Earnings (loss) before income taxes and gain (loss) on disposal of fixed assets	463,347	884,121	866,117	252,151	104,599	(336,294)	57,693	(294,556)	96,406	367,783
Gain (loss) on disposal of fixed assets	179,061	483,652	45,085	86,773	9,935	(44,636)	9,700	(72,457)	324,019	108,825
Net earnings (loss) and gain (loss) on disposal of fixed assets	642,408	1,424,773	601,202	331,324	114,534	(317,480)	10,393	(412,013)	415,425	500,583
Purchases of aircraft and ground equipment	6,949,229	6,015,777	1,453,522	703,073	449,797	836,373	573,618	413,201	1,306,318	283,942
Retirement of term debt	2,641,438	1,295,415	344,032	375,238	347,085	333,804	690,220	185,075	1,068,514	878,858
Dividends paid—preferred	66,527	69,537	69,537	124,074	15,000	69,537	69,537	69,537	69,537	69,537

OPERATING STATISTICS

Mainline										
Passengers carried	364,089	301,834	230,396	180,444	126,506	121,335	114,462	117,401	96,002	68,857
Cargo carried (lbs.)	12,157,911	10,581,891	12,429,400	9,787,255	8,355,206	7,309,954	6,212,768	7,154,835	4,766,902	754,735
Passenger miles flown	92,909,407	77,877,340	56,813,151	43,347,230	34,073,147	33,828,118	31,984,300	32,476,800	24,002,000	11,655,600
Ton miles flown	12,938,749	11,035,356	9,201,929	6,960,506	5,409,221	5,194,132	5,092,119	5,406,035	3,403,988	1,546,450
Aircraft miles flown	3,731,926	3,216,699	2,844,336	2,425,967	1,991,819	1,993,023	2,172,521	2,445,029	1,449,925	885,000
Contract and charter										
Hercules aircraft miles flown	563,115	—	—	—	—	—	—	—	—	—
Other multi-engine aircraft miles flown	543,970	656,517	466,431	398,762	384,107	217,644	207,252	153,130	137,914	111,400
Single-engine aircraft miles flown	650,333	1,077,787	2,338,167	1,849,709	1,743,608	1,678,858	1,966,688	1,695,392	1,342,561	2,930,968
International passenger service										
Aircraft miles flown	669,764	744,177	841,997	726,086	—	—	—	—	—	—
DEW line operations										
Aircraft miles flown	—	—	—	—	—	—	304,010	1,431,553	1,796,725	2,075,421

HEAD OFFICE

Vancouver Airport, B.C.

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company,
Vancouver, B.C.

BANKERS

Canadian Imperial Bank of Commerce,
Vancouver, B.C.

SHAREHOLDERS' AUDITORS

Peat, Marwick, Mitchell & Co.,
Vancouver, B.C.

SHARES LISTED

Vancouver Stock Exchange

SUBSIDIARY COMPANIES

(Wholly Owned)

Pacific Western Airlines (Alberta) Ltd.
Aero Engineering Limited
Queen Charlotte Airlines Ltd.
Silver Wings Aviation Ltd.

PACIFIC WESTERN AIRLINES